

GROWING CONVERGENCE: THE LIMITED ROLE OF ANTITRUST IN STANDARD ESSENTIAL PATENT DISPUTES



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In the last couple of years, the United States Department of Justice ("DOJ") and several European countries have reversed previous interventionist decisions and limited the role of antitrust in the resolution of disputes concerning Standard Essential Patent ("SEPs"). These jurisdictions recognize the need to protect intellectual property rights ("IPRs") by making available injunctions against infringers. Courts have realized that *hold-up* by a patent holder demanding excessive royalties is not a widespread problem and that patent implementers may *hold-out* against paying any royalties whilst they continue to practice a patent. They have accordingly adopted new standards for granting injunctions in disputes involving SEPs with the goal of increasing efficiency and legal certainty. We discuss this shift and its implications for competition policy and innovation.

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I. INTRODUCTION

In the last couple of years, the United States Department of Justice (“DoJ”) and several European countries have reversed previous interventionist decisions and limited the role of antitrust in the resolution of disputes concerning Standard Essential Patent (“SEPs”). These jurisdictions recognize the need to protect intellectual property rights (“IPRs”) by making available injunctions against infringers. Courts have realized that *hold-up* by a patent holder demanding excessive royalties is not a widespread problem and that patent implementers may *hold-out* against paying any royalties whilst they continue to practice a patent. They have accordingly adopted new standards for granting injunctions in disputes involving SEPs with the goal of increasing efficiency and legal certainty.

The changes in the approach to SEP disputes may be summarized in the following principles: (i) SEP holders have the right to seek injunctive relief against infringers without automatically triggering antitrust concerns;² (ii) absent exclusionary effects, an alleged breach of a commitment to license a patent on Fair, Reasonable, and Non-Discriminatory (“FRAND”) terms is not an actionable offence under antitrust law and is better addressed under contract or patent law;³ (iii) agencies and courts should not presume that an IPR confers market power on its holder;⁴ (iv) the analysis of comparable licenses provides the most reliable methodology for determining the FRAND rate for an SEP;⁵ and (v) an SEP holder may choose at which level to license its SEP.⁶

The U.S. changed its policy on SEPs in 2019 when the DoJ and the United States Patent and Trademark Office (“PTO”) withdrew and replaced their 2013 joint statement to reflect the changes made in the evaluation of remedies for SEP disputes. The DoJ and the PTO, now joined by the National Institute of Standards and Technology, issued a new policy statement that allows SEP holders to seek injunctive relief “[c]onsistent with the prevailing law.”⁷ The new statement applies existing intellectual property standards to SEP disputes, allowing the SEP holders to seek equitable relief without raising antitrust concerns.⁸ Then-Assistant Attorney General Makan Delrahim labeled this policy the “New Madison Approach.”⁹ He reasoned that antitrust law should not be used to limit an SEP holder’s access to an otherwise justified injunction and noted that such a limit would allow the implementer freely to infringe the SEP knowing that the most it will eventually have to pay is a FRAND royalty rate.¹⁰ The DoJ also applied its new approach in updating its reply to the Business Review Letter sought by the Institute of Electrical and Electronics Engineers.¹¹

2 See generally Joshua D. Wright, *SSOs, FRAND, and Antitrust: Lessons from the Economics of Incomplete Contracts*, 21 GEO. MASON L. REV. 791 (2014) (discussing the role of SDOs in the selection and enforcement of standards and whether antitrust law has, or should have, a role in regulating the SDO contracting processes); see also Douglas H. Ginsburg, Taylor M. Owings, and Joshua D. Wright, *Enjoining Injunctions: The Case Against Antitrust Liability for Standard Essential Patent Holders Who Seek Injunctions*, ANTITRUST SOURCE at 6 (Oct. 30, 2014), available at https://www.americanbar.org/content/dam/aba/publishing/antitrust_source/oct14_ginsburg_10_21f.authcheckdam.pdf (“[O] verderference of SEP holders seeking injunctions would be harmful to the public interest in competition and innovation.”); U.S. DEP’T OF JUST., PTO, & NIST, STATEMENT ON REMEDIES FOR STANDARD-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY FRAND COMMITMENTS (Dec. 19, 2019), <https://www.justice.gov/atr/page/file/1228016/download>.

3 See *FTC v. Qualcomm*, 969 F.3d 974 (9th Cir. 2020); *Cont’l Auto. Sys., Inc. v. Avanci, LLC*, 2019 WL 6735604, (N.D. Cal. 2019); Bruce H. Kobayashi & Joshua D. Wright, *Federalism, Substantive Preemption, and Limits on Antitrust: An Application to Patent Holdup*, 5 J. COMPETITION L. & ECON. 469, 471 (2009); Bruce H. Kobayashi & Joshua D. Wright, *The Limits of Antitrust and Patent Holdup: A Reply to Cary, et al.*, 78 ANTITRUST L.J. 505 (2012); Koren Wong-Ervin, Douglas H. Ginsburg, Bruce H. Kobayashi & Joshua D. Wright, *The Troubling Use of Antitrust to Regulate FRAND Licensing*, 15-46 GEO. MASON L. & ECON. RES. PAPER (Oct. 15, 2015) <https://ssrn.com/abstract=2674759>.

4 See *Illinois Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006); U.S. DEP’T OF JUST. & FED. TRADE COMM’N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (JAN. 2017); Koren Wong-Ervin, Douglas H. Ginsburg, Bruce H. Kobayashi & Joshua D. Wright, *Comment of the Global Antitrust Institute, Antonin Scalia Law School, George Mason University, on the U.S. Antitrust Agencies’ Proposed Update of the Antitrust Guidelines for the Licensing of Intellectual Property*, 16-38, GEO. MASON L. & ECON. RES. PAPER (Sept. 20, 2016), <https://ssrn.com/abstract=2841207>.

5 See *Ericsson v. D-Link*, 773 F.3d 1201 (Fed. Cir. 2014); *Sisvel v. Haier*, Federal Court of Justice (Bundesgerichtshof) 5 May 2020 - Case No. KZR 36/17; *Unwired Planet v. Huawei & Conversant v. Huawei and ZTE*, UK Supreme Court 26 August 2020 - Case No. [2020] UKSC 37.

6 See *Nokia v. Daimler*, Landgericht Mannheim [LG Mannheim] [District Court of Mannheim] Aug. 18, 2020, Case-No. 2 O 34/19 (Ger.); *Qualcomm*, 969 F.3d 974; *Avanci*, 2019 WL 6735604.

7 U.S. DEP’T OF JUST., PTO, & NIST, *supra* note 2, at 5.

8 *Id.*

9 Makan Delrahim, *Keynote Address at University of Pennsylvania Law School, The “New Madison” Approach to Antitrust and Intellectual Property Law* at 2 (Mar. 16, 2018), <https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-keynote-address-university> [hereinafter “New Madison” Approach].

10 *Id.* (“If a patent holder effectively loses its right to an injunction whenever a licensing dispute arises, or is deterred from seeking an injunction due to the prospect of treble damages, an implementer can freely infringe, knowing that the most he or she will eventually have to pay is a reasonable royalty rate.”).

11 This letter emphasized that the right of SEP holders to seek injunctive relief should not be limited; hold-up had proved not to be a competitive problem; and the best method for determining FRAND royalty rates was not the use of the smallest saleable patent practicing unit (“SSPPU”). See Letter from Makan Delrahim to Sophia A. Muirhead, Gen. Counsel & Chief Compliance Officer, Ins. of Elec. & Elec. Eng’rs (Sept. 10, 2020) [hereinafter DoJ 2020 IEEE BRL]. CPI Antitrust Chronicle July 2021

The 2020 decision in *FTC v. Qualcomm Inc.*¹² illustrates the judicial expression of the “New Madison Approach.” There the Ninth Circuit explained that in the absence of exclusionary effects, an alleged breach of a FRAND commitment is not an actionable offence under antitrust law and is better addressed under contract or patent law.¹³

In Europe, the case law that developed following the decision of the European Court of Justice (“ECJ”) in *Huawei v. ZTE*¹⁴ instantiates the global shift towards stronger protection of IPRs and a limited role for antitrust in SEP disputes. While the *Huawei* decision held that seeking injunctive relief with respect to a FRAND-encumbered SEP may violate Article 102 of the Treaty on the Functioning of the European Union, it also established a readily available safe harbor in which courts will not find an SEP holder in violation of antitrust law. Additionally, the ECJ placed the burden on the alleged infringer to “diligently respond” to a license offer in order to be considered a “willing” licensee. The application of the *Huawei* criteria by national courts allows SEP holders to protect their IPRs and limits the role of antitrust in SEP disputes.

II. AN SEP HOLDER’S RIGHT TO SEEK AN INJUNCTION

As recently as 2016, several U.S. courts were of the view that an SEP holder’s promise to license under FRAND terms implicitly waived its right to seek an injunction against an unlicensed implementer and that seeking an injunction would be anticompetitive.¹⁵ Not all courts agreed, as shown by the case of *Apple v. Motorola*, in which the Federal Circuit rejected the notion that a FRAND commitment categorically precluded an SEP holder from obtaining an injunction.¹⁶ Courts are increasingly abandoning this view as they realize that antitrust sanctions are both unnecessary to protect consumers — who are adequately protected by the law of contracts and the standards that must be met to get an injunction — and by devaluing IPRs, diminish the incentive to innovate.¹⁷

The European Commission originally adopted a strong stance against SEP holders seeking injunctive relief. In *Motorola Mobility*¹⁸ and *Samsung*,¹⁹ the Commission prohibited injunctive relief under the theory that it would allow the SEP holder to “hold-up,” that is, overcharge would-be licensees.²⁰ In *Motorola Mobility*, however, the Commission clarified its view that an injunction against infringement of a FRAND-encumbered SEP should be available when the patent holder is dealing with an unwilling licensee.²¹

The stringent EU stance against injunctions began to shift with the *Huawei* case. In that case, the ECJ clarified the conditions that allow an SEP holder to seek an injunction without violating Article 102 of the Treaty on the Functioning of the European Union. (“TFEU”). The court held the holder of a FRAND-encumbered SEP does not necessarily abuse its dominance merely by seeking an injunction or by seeking a recall of the infringing products.²² It will be held harmless if, prior to bringing a court action, the holder has notified the implementer that the implementer is

12 969 F.3d 974 (9th Cir. 2020).

13 See *id.* at 986-87. See also *Avanci*, 485 F. Supp. 3d 712.

14 Case C-170/13, *Huawei Tech. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477 (July 16, 2015).

15 See, e.g. *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 885 (9th Cir. 2012) (“Implicit in such a sweeping promise is, at least arguably, a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made.”); *Microsoft Mobile Inc. v. Interdigital, Inc.*, 2016 WL 1464545, at *1 (D. Del. Apr. 13, 2016); Answer, Affirmative Defenses, and Counterclaims, *Huawei Techs. Co. v. T-Mobile US, Inc.*, 2016 WL 8470351 (E.D. Tex. Dec. 6, 2016).

16 *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-32 (Fed. Cir. 2014) (“FRAND commitments are certainly criteria relevant to its entitlement to an injunction, [but] we see no reason to create . . . a separate rule or analytical framework for addressing injunctions for FRAND-committed patents.”).

17 See, e.g. *Qualcomm*, 969 F.3d at 988, 997; *Avanci*, 485 F. Supp. 3d at 730–733.

18 Case AT-39985, *Motorola Mobility* (Apr. 29, 2014) available at https://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf [hereinafter EC *Motorola*].

19 Case AT-39939, *Samsung* (Apr. 29, 2014) available at https://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf.

20 See Eur. Comm’n, Press Release, Antitrust: Commission accepts legally binding commitments by Samsung Electronics on standard essential patent injunctions, (Apr. 29, 2014) https://ec.europa.eu/commission/presscorner/detail/en/IP_14_490; Eur. Comm’n, Press Release, Antitrust: Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents- Questions and Answers (May 6, 2013), https://ec.europa.eu/commission/presscorner/detail/en/MEMO_13_403.

21 EC *Motorola* at ¶ 423.

22 *Huawei*, ECLI:EU:C:2015:477, at ¶ 71; see also Eur. Comm’n, LICENSING TERMS OF STANDARD ESSENTIAL PATENTS: A COMPREHENSIVE ANALYSIS OF CASES 67 (2017), <https://publications.jrc.ec.europa.eu/repository/bitstream/JRC104068/jrc104068%20online.pdf>.

infringing its patent(s) and specified the infringed patent(s) along with the manner of infringement; if the alleged infringer expressed its willingness to reach a licensing agreement on FRAND terms, then the SEP holder must have presented the infringer with a written offer for a license on FRAND terms, specifying the royalty rate and showing how the royalty is to be calculated.²³ The implementer or alleged infringer must promptly respond in writing either by accepting or by making a counteroffer.²⁴ Should the implementer fail to make either response, then it must provide security against the possibility that it will be held liable to the SEP holder.²⁵

Further, the ECJ clarified that the assertion of an IPR by seeking an injunction cannot “in itself, constitute an abuse of a dominant position”²⁶ absent unspecified “exceptional circumstances.”²⁷ The ECJ reasoned that, although a FRAND commitment justifies imposing some obligations on the SEP holder, it cannot deprive the holder of the ability to enforce its “exclusive right.”²⁸

In the wake of *Huawei v ZTE*, application of the safe harbor by national courts has resulted in the grant of injunctions and limiting the role of antitrust in SEP disputes. For example, in its May 2020 *Sisvel v. Haier* decision, the German Federal Court of Justice held an SEP holder that had committed to offer a license on FRAND terms was entitled to an injunction when its patents were infringed.²⁹ After lengthy proceedings before the Federal Patent Court and the Appeal Court, the FCJ held the patent in question was essential to the GPRS standard and had been infringed.³⁰ Moreover, the FCJ held *Sisvel* had not infringed Article 102 of the TFEU by initiating infringement proceedings against *Haier*.³¹

Similarly, in *Nokia v. Daimler*, the District Court of Mannheim rejected arguments that an SEP holder abused its dominant position under the standards of *Huawei*.³² The court emphasized that SEP holders are not *per se* disallowed from enforcing the exclusivity arising from their patents.³³ That a patent is standard essential does not mean the patent holder is obligated to tolerate the use of its technology without compensation.³⁴ As long as the patent holder complies with its duties under the *Huawei* framework, it will not be held to have abused its dominance.³⁵ Along the same lines, the Paris Court of Appeal said in *Conversant v. LG* held that the mere filing of an injunctive action based upon SEPs could not in itself constitute an abuse of dominance.³⁶

Further, the court found that *Daimler* did not adequately express its willingness to negotiate a FRAND license with *Nokia*. Therefore, *Daimler* could not rely upon a FRAND defense to avoid an injunction.³⁷ Having declared its willingness to take a license was not enough to discharge its obligation to negotiate in good faith.³⁸

23 *Huawei*, ECLI:EU:C:2015:477, at ¶ 63.

24 *Id.* at 66; see also EUR. COMM’N, LICENSING TERMS OF STANDARD ESSENTIAL PATENTS: A COMPREHENSIVE ANALYSIS OF CASES 67 (2017), <https://publications.jrc.ec.europa.eu/repository/bitstream/JRC104068/jrc104068%20online.pdf>.

25 *Id.*

26 *Huawei*, ECLI:EU:C:2015:477, at ¶ 38.

27 *Id.* at ¶ 47.

28 *Id.* at ¶¶ 58-59.

29 Plaintiff *Sisvel* held SEPs for several wireless communication standards. The defendants were German and French subsidiaries of the Chinese *Haier* group which produces and sells, among other things, electronic devices complying with the GPRS standard. The controversy between *Sisvel* and *Haier* started in 2012, when *Sisvel* informed the parent company of the *Haier* group that it was infringing its patents. In April 2013 *Sisvel* made a commitment to the European Telecommunications Standard Institute (“ETSI”) to license in FRAND terms and conditions. After its offer was rejected by *Haier* in September 2014, *Sisvel* filed an infringement action against *Haier* before the district court of Duesseldorf based on an SEP covering data transmission technology under the GPRS standard. *Haier* filed a nullity action against the patent in suit before the German Federal Patent Court in March 2015. See *Sisvel v. Haier*, Federal Court of Justice (Bundesgerichtshof) 5 May 2020 - Case No. KZR 36/17 at ¶¶ 67, 69.

30 *Id.* at ¶ 9 *et seq.*

31 *Id.* at ¶ 52.

32 *Nokia*, at ¶ 144.

33 *Id.* at ¶ 146.

34 *Id.*

35 *Id.* at ¶ 147.

36 *Conversant v. LG, Court of Appeal of Paris*, April 16, 2019 - Case No. 061/2019, RG 15/17037 at 3.

37 *Nokia*, at ¶¶ 157–231.

38 *Id.* at ¶ 258.

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Again, in *NTT DoCoMo v. HTC*, the District Court of Mannheim highlighted that the exercise of the exclusive rights conveyed by a patent may be blocked only in exceptional circumstances, which the implementer has the burden to demonstrate.³⁹ The court also discussed the implementer's duty to respond diligently to the SEP holder's offer of a license.⁴⁰ The implementer's response in this case was insufficient because it made no counteroffer for a year and a half after receiving the SEP holder's offer and half a year after the SEP holder had filed suit. Additionally, the implementer failed to provide adequate security following the rejection of its counteroffer.⁴¹

In *OLG Düsseldorf*, the Higher Regional Court of Düsseldorf clarified that the criteria for issuing a preliminary injunction involving an SEP are the same as the criteria for an injunction involving patents that are not SEPs.⁴² The SEP holder must establish the validity of the SEP, its use by the alleged infringer, and the urgency of its request for a preliminary injunction.⁴³ Of course, the SEP holder must also have followed the procedures laid out in *Huawei* before filing for an injunction.⁴⁴

In *Unwired Planet Int'l v. Huawei Technologies Ltd.*, the Supreme Court of the United Kingdom addressed appeals in two related cases concerning patents developed for the ETSI that were potentially essential to wireless telecommunications standards.⁴⁵ The Supreme Court held that under the ETSI IPR Policy, SEP holders are not prohibited from seeking an injunction.⁴⁶ Rather, the possibility to stop infringement through an injunction is a necessary component of the balance the IPR Policy seeks to strike, and the threat of an injunction ensures that implementers are incentivized to negotiate a FRAND license.⁴⁷

These cases demonstrate the trend in Europe toward allowing injunctions for SEP infringements. Following the creation of the safe harbor in *Huawei*, courts across Europe have allowed SEP holders to seek injunctions as long as they follow the Huawei procedures. By treating SEPs as they do other patents and shifting their focus to the negotiation process, these court decisions have virtually eliminated the role of antitrust in SEP disputes.

III. THE LIMITED ROLE FOR ANTITRUST IN SEP DISPUTES

Courts have increasingly recognized the importance of protecting IP rights in order to foster innovation. To determine whether antitrust law has been violated, the relevant question is not whether an agreement was breached but whether there was anticompetitive harm arising from the breach.

In *Qualcomm*, the Ninth Circuit did not jump from an alleged breach of FRAND to an antitrust violation.⁴⁸ The court rejected the allegations that the FRAND commitment Qualcomm had made to two SDOs created an antitrust duty to license the company's IP to chip manufacturers (as opposed to makers of the final device).⁴⁹ The court stressed that a cautious approach should be taken when using antitrust to address what are essentially contractual disputes between parties engaged in the pursuit of technological innovation.⁵⁰ The DoJ filed an amicus brief in the

39 *NTT DoCoMo v. HTC*, January 29, 2016 - Case No. 7 O 66/15 at ¶ 59 (referencing *Huawei*).

40 *Id.* at ¶ 94.

41 *Id.*

42 *OLG Düsseldorf* July 18, 2017 - Case No. I-2 U 23/17.

43 *Id.*

44 *Id.*

45 The first case involved a dispute between Unwired Planet holding a portfolio of SEPs reading on several wireless telecommunications standards, and two companies of the Huawei group, a Chinese manufacturer and vendor of standard compliant mobile phones. The second case revolves around a dispute between the licensing company Conversant and Huawei as well as two companies of the ZTE group. ZTE is a China-based group of companies manufacturing network equipment, mobile phones, and consumer electronics sold worldwide. *Unwired Planet v. Huawei & Conversant v. Huawei and ZTE*, UK Supreme Court, August, 26 2020 - Case No. [2020] UKSC 37.

46 *Id.* at ¶ 61.

47 *Id.*

48 See *Qualcomm*, 969 F.3d at 997

49 *Id.* at 993.

50 *Id.* at 997.

case arguing the district court's ruling had improperly applied Section 2 of the Sherman Act to condemn unilateral licensing activity in a manner threatening competition and innovation.⁵¹

The Northern District of Texas echoed the views of the Ninth Circuit in *Cont'l Auto. Sys., Inc. v. Avanci, LLC*:⁵² “An SEP holder may choose to contractually limit its right to license the SEP through a FRAND obligation, but a violation of this contractual obligation is not an antitrust violation.”⁵³ The court rejected the argument that it violates the Sherman Act to create a patent licensing pool that extracts non-FRAND terms from licensees, especially when there is a “‘realistic opportunity’ to obtain individual licenses outside of the pool.”⁵⁴ Conduct must harm the competitive process to be deemed anticompetitive, but there was no evidence that violation of the FRAND commitment would have that effect.⁵⁵ The DoJ submitted a Statement of Interest explaining that Continental's attempt to base a Section 2 violation upon an alleged breach of FRAND licensing commitments did not state a cognizable antitrust claim.⁵⁶

U.S. courts are aligning with European courts to limit the role of antitrust in SEP disputes. Recent decisions demonstrate a commitment to examine competitive harm instead of automatically accepting an allegation that violation of a FRAND commitment constitutes a violation of antitrust law.

IV. IPRS DO NOT PRESUMPTIVELY CREATE MARKET POWER

In the 2007 case of *Broadcom Corp. v. Qualcomm Inc.*,⁵⁷ the Third Circuit held the breach of a FRAND commitment could violate the antitrust laws if a patent-holder deceived a standard developing organization (“SDO”) regarding its intention to license on FRAND terms.⁵⁸ The court did not conclude that breach of an SDO contract alone — even if it results in higher royalty rates — has an anticompetitive effect.⁵⁹ (Indeed, the Ninth Circuit in *Qualcomm* strongly rejected the view that SEPs necessarily give their holders market power.⁶⁰) Instead, it was the alleged deception that purportedly gave the SEP holder market power sufficient to constitute monopolization in violation of section 2 of the Sherman Act.⁶¹ Even so, no other Court of Appeals has followed the approach taken in *Broadcom*.

In *Sisvel v. Haier*,⁶² the German FCJ held Sisvel had a dominant position in its market,⁶³ but that was not attributable solely to the exclusivity rights granted by a patent.⁶⁴ When a patent is essential for complying with a standard or a de facto standard and technical alternatives are not available for products sold on a downstream market, then the assessment of dominance requires defining a distinct market in which licenses for the patent in question are offered.⁶⁵

51 See United States' Statement of Interest Concerning Qualcomm's Motion for Partial Stay of Injunction Pending Appeal, *Qualcomm, Inc.*, 2020 WL 4591476 (No. 19-16122), 2019 WL 3306496.

52 485 F. Supp. 3d 712 (N.D. Tex. 2020).

53 *Id.* at 743; see also *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1040-45 & n.2 (9th Cir. 2015) (upholding district court's analysis of FRAND rate and range in breach of contract action).

54 *Avanci*, 485 F. Supp. 3d at 732.

55 *Id.* at 729.

56 See United States' Statement of Interest Concerning *Continental Automotive Systems, Inc. v. Avanci, LLC et al*, Docket No. 3:19-cv-02933 (N.D. Tex. Dec 12, 2019).

57 501 F.3d 297 (3d Cir. 2007).

58 *Id.* at 314.

59 See 501 F.3d at 314 (“Deception . . . harms the competitive process by . . . increasing the likelihood that patent rights will confer monopoly power on the patent holder.”); Wright, *supra* note 2, at 803 (citing *Rambus Inc. v. FTC*, 522 F.3d 456, 466–67 (D.C. Cir. 2008), *cert. denied*, 555 U.S. 1171 (2009); *Broadcom*, 501 F.3d at 310–12).

60 See 969 F.3d at 987 (rejecting the district court's inference of anticompetitive harm as a result of Qualcomm's conduct with respect to the SDO and FRAND licensing).

61 *Id.* at 312–16. The Northern District of Texas's decision in *Research in Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 793 (N.D. Tex. 2008), misinterpreted *Broadcom* as suggesting that having an SEP could in itself give the holder monopoly power.

62 See Bundesgerichtshof [BGH] [Federal Court of Justice] May 5, 2020, 36 Entscheidungen des Bundesgerichtshofes in Zivilsachen [BGHZ] 17, ¶ 54.

63 *Id.* at ¶ 54.

64 *Id.* at ¶ 56.

65 *Id.* at ¶ 57 *et seq.*

As these decisions show, American and European courts agree that holding a patent — even if standard essential — does not imply the patent owner has market power. Rather, plaintiffs must properly define a market and demonstrate anticompetitive effects.

V. THE SSPPU IS NOT THE PREFERRED METHOD FOR DETERMINING SEP ROYALTY RATES AND DIFFERENT ROYALTIES DO NOT NECESSARILY CONSTITUTE DISCRIMINATION

In determining the value of an SEP, courts and agencies have rejected the smallest, salable, patent practicing unit (“SSPPU”) as the preferred metric for calculating royalties and recognized that the analysis of comparable licenses may best reflect what market participants consider to be a FRAND rate.

In 2020 the DoJ clarified in a supplement to the 2015 IEEE Business Review Letter (“BRL”) that the Department’s 2015 recommendation to use the SSPPU as the appropriate royalty base reflected a faulty assessment of the then-underdeveloped case law, which “was not well-supported and has not proven accurate.”⁶⁶ The DoJ issued the supplemental letter out of concern that its recommendation in the earlier BRL was discouraging participation in SDOs and potentially chilling innovation.⁶⁷

Quoting the Federal Circuit’s holding in *Exmark Mfg. Co. Inc. v. Briggs & Stratton Power Prod. Grp., LLC*,⁶⁸ the DoJ said there are “‘a variety of ways’ parties might value patented technology.”⁶⁹ SSPPU is one method, but another equally valid method involves “using the accused [end-product] as a royalty base and apportioning through the royalty rate.”⁷⁰ Similarly, in *Ericsson, Inc. v. D-Link Sys., Inc.*,⁷¹ the Federal Circuit stated that an appropriately apportioned royalty award could not be designed by starting with the entire market value of a multi-component product because “reliance on the entire market value might mislead the jury.”⁷² In *Qualcomm*, the Ninth Circuit noted that “no court has held that the SSPPU concept is a *per se* rule for ‘reasonable royalty’ calculations”; it is, rather, merely a tool to “minimize potential jury confusion[.]”⁷³

Similarly, in *Intel Corp. v. Fortress Inv. Grp. LLC*,⁷⁴ the DoJ argued antitrust law did not bar the defendant’s efforts to aggregate and to monetize its patents.⁷⁵ The district court for the Northern District of California agreed with the DoJ and dismissed the complaint because, among other reasons, the plaintiffs failed to show the royalty rates were supracompetitive or that any supracompetitive pricing would have been attributable to the aggregation of patents that are viable substitutes for one another.⁷⁶

In *Nokia v. Daimler*,⁷⁷ the District Court of Mannheim rejected the SSPPU because the patent exhaustion doctrine would prevent the SEP holder from participating in the value created at the final stage of the value chain.⁷⁸ The court explained that the patent holder is entitled freely to choose the stage in the supply chain at which it will assert its rights.⁷⁹ Further, the non-discrimination provision of Article 102(c) TFEU should

66 Letter from Makan Delrahim, Assistant Att’y Gen., U.S. Dep’t of Just., to Sophia A. Muirhead, Gen. Counsel. IEEE (Sep. 10, 2020), available at <https://www.justice.gov/atr/page/file/1315291/download>.

67 See *id.*

68 879 F.3d 1332, 1348 (Fed. Cir. 2018).

69 DoJ 2020 IEEE BRL at 7.

70 *Exmark Mfg. Co.*, 879 F.3d at 1348.

71 773 F.3d 1201 (Fed. Cir. 2014).

72 *Id.* at 1227.

73 969 F.3d at 998.

74 2020 WL 6390499 (N.D. Cal. July 15, 2020).

75 See Dep’t of Just., Statement of Interest of the United States (Mar. 20, 2020) at 14, *Intel Corp. v. Fortress Inv. Grp. LLC*, 2020 WL 6390499 (N.D. Cal. Nov 20, 2019).

76 *Intel Corp.*, 2020 WL 6390499, at *25.

77 Landgericht Mannheim [LG Mannheim] [District Court of Mannheim] Aug. 18, 2020, Case-No. 2 O 34/19 (Ger.).

78 *Id.* at ¶ 172.

79 *Id.* at ¶ 202.

not be interpreted as requiring equal fees or treatment of licensees insofar as a difference is justified.⁸⁰

In *Unwired Planet v. Huawei*,⁸¹ the Supreme Court of the United Kingdom analyzed the interpretation of the non-discrimination element of FRAND.⁸² The Court held Unwired Planet had not breached the non-discrimination requirement by offering Huawei less favorable license terms than those to which it had agreed with Samsung after trial. The Court held that FRAND does not require the patent holder to offer the same or similar terms to all similarly situated licensees.⁸³ Instead, the FRAND obligation is satisfied when the rate is objectively determined based on the value of the portfolio and different rates are attributed to seeking different licenses.⁸⁴ Moreover, the court noted there is no general presumption that price discrimination is harmful to the private or public interests involved.⁸⁵

Finally, in *Koninklijke Philips N.V. v Asustek Computer Inc.*,⁸⁶ a patent enforcement case, the Court of Appeal of the Hague upheld the validity and essentiality of the plaintiff's patent, rejected the defendant's FRAND defense on the ground that it was not a willing licensee, and entered an injunction against Asustek for its products infringing the patent in suit.⁸⁷ Among other things, the Court held Philips's blanket declaration did not infringe Article 101 of the TFEU because, under the European Commission's Guidelines on Horizontal Agreements, blanket declarations are an acceptable way to declare patents are SEPs for the purposes of EU competition law.⁸⁸

These cases show there is increasing agreement among courts that patent owners are not limited to calculating royalties based upon the SSPPU, but instead have the freedom to determine how they will value their IPRs. Additionally, FRAND terms do not require patent owners to offer identical terms to all licensees. Instead, FRAND requires only that patent owners offer the same terms for the same license.

VI. THE LEVEL AT WHICH SEPS MAY BE LICENSED

While some have argued a FRAND commitment restricts an SEP holder's freedom to choose the level at which to license its patent,⁸⁹ no U.S. court has adopted this position. In *Qualcomm*, the Ninth Circuit acknowledged not only that an SEP holder could choose the level at which to license but that it only made commercial sense for Qualcomm to base its licenses in such a way as to avoid patent exhaustion.⁹⁰ The court also noted there is generally no duty to deal with competitors and the limited exception in *Aspen Skiing*⁹¹ was not applicable to Qualcomm's practice of licensing only to end product manufacturers.⁹² The same approach was followed by the district court in *Continental Auto Systems Inc. v. Avanci, LLC*,⁹³ when it rejected the claim that the practice of licensing SEPs to car manufacturers, rather than to component manufacturers, violated antitrust laws.⁹⁴

80 *Id.* at ¶ 203.

81 *Unwired Planet v Huawei* [2020] UKSC 37 (appeal taken from Eng.).

82 *Id.* at ¶¶ 106 *et seq.*

83 *Id.* at ¶ 121.

84 *Id.* at ¶ 192, 198.

85 *Id.* at ¶ 126.

86 Hof's—Gravenhage, May 7, 2019, ECLI:NL:GHDHA:2019:1065 (*Koninklijke Philips N.V./Asustek Computers Inc.*) (Neth.).

87 *Id.* at ¶¶ 4.186, 5.1–11.

88 *Id.* at ¶ 4.164.

89 See, e.g. Herbert Hovenkamp, *FRAND and Antitrust*, 105 CORNELL L. REV. 1683, 1689 (2020).

90 969 F.3d at 984.

91 *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 601 (1985) ("The absence of a duty to transact business with another firm is . . . the counterpart of the independent businessman's cherished right to select his customers and his associates. The high value that we have placed on the right to refuse to deal with other firms does not mean that the right is unqualified.")

92 See *Qualcomm*, 969 F.3d at 993-95.

93 2019 WL 6735604 (N.D. Cal. Dec. 11, 2019).

94 *Id.* at *3.

This question also arose in Europe pursuant to the *Huawei* decision. In that case the ECJ refers to SEPs subject to FRAND commitments as creating “particular circumstances” that justify distinguishing “cases brought under the (otherwise restrictive) EU competition case-law on essential facilities.”⁹⁵ These “particular circumstances” are the creation of legitimate expectations, which the ECJ held established expectations for the terms of licenses but did not create a duty to license at every level.⁹⁶

VII. POLICY IMPLICATIONS AND CONCLUSIONS

A strong patent law is crucial not only for market incumbents but even more for would-be entrants as it “tends to enable smaller, less integrated, more disruptive innovators.”⁹⁷ The possibility of obtaining injunctive relief against infringement of an SEP is crucial to encourage innovation and entry.

At the same time, policies that encourage innovators to participate in the standard development process result in more competition to shape the standard, making it more likely that the best technologies will be adopted. Less participation could result in suboptimal standards and less implementation in the marketplace, which would tend significantly to diminish interconnectivity and interoperability. Therefore, as a general principle, policies that protect IPRs and promote participation in the standard development process have the potential to promote innovation and consumer welfare.

There is no benefit to be had from imposing antitrust liability upon a patentee merely for seeking to enforce its property right. Indeed, to hold that seeking an injunction may be anticompetitive negatively affects an important right that promotes dynamic competition by ensuring there are strong incentives to invest in innovative technologies.⁹⁸ More important still, imposing antitrust liability for enforcing an SEP frustrates the constitutional purpose of conferring patent rights, turning a property rule into a liability rule and creating a de facto compulsory licensing scheme.⁹⁹

Competition and consumers both benefit when inventors have complete incentives to exploit their patent rights. This requires an assurance to inventors that they need not subsidize their competitors’ business models.¹⁰⁰

Finally, antitrust laws protect against conduct that harms consumers¹⁰¹ and should not be used to protect particular firms or competitors from lawful competition. Patent and antitrust laws are aligned in their mutual aim to foster innovation that creates dynamic competition.¹⁰² They accomplish this objective by ensuring that innovators have adequate incentives to invest in, and to monetize, their technological advances.

95 See Jean-Sébastien Borghetti, Igor Nikolic & Nicolas Petit, *FRAND Licensing Levels under EU Law*, EUR. COMPETITION J 1, 6 (2021) (quoting Judgment of 16 July 2015, *Huawei v. ZTE*, C-170/13, ECLI:EU:C:2015:477, ¶¶ 46–48).

96 *Id.* at 8–9 (citing *Huawei v. ZTE*, ¶ 54).

97 Allen Grunes, *Of Antitrust and Patents: the Quiet Return of the Status Quo at the DOJ’s Antitrust Division*, PROMARKET (Apr. 26, 2021), <https://promarket.org/2021/04/26/antitrust-patents-status-quo-doj-makan-delrahim/>, drawing upon Jonathan Barnett, *Innovators, Firms, and Markets: The Organizational Logic of Intellectual Property* (Oxford, 2021).

98 See, e.g. Ginsburg, et al, *supra* note 2, at 4.

99 See *id.* at 2. The patent laws are rooted in the Constitution, which establishes a patent framework bestowing inventors with “exclusive Right[s]” over their “Writings and Discoveries,” in order “[t]o promote the Progress of Science and useful Arts.” U.S. CONST. art. I, § 8, cl. 8.

100 See “New Madison” Approach, *supra* note 9, at 16.

101 See *United States v. Microsoft Corp.*, 253 F.3d 34, 58 (D.C. Cir. 2001) (*en banc*) (*per curiam*).

102 See DoJ FTC Antitrust Guidelines for the Licensing of Intellectual Property at § 1.0.

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